

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Banner Corporation, and subsidiaries Banner Bank and Islanders Bank

Point of Contact:	Lloyd W. Baker, EVP/CFO	RSSD: (For Bank Holding Companies)	2126977
UST Sequence Number:	63	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	124,000,000	FDIC Certificate Number: (For Depository Institutions)	Banner 28489 Islanders 23469
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	November 21, 2008	City:	Walla Walla
Date Repaid ¹ :	N/A	State:	Washington

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

The stronger capital position added to our ability to fund credit-worthy borrowers, particularly small businesses and consumers.

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X To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

We are actively engaged in making loans to consumers, including residential mortgage loans, and businesses, including small to mid-sized commercial and agricultural businesses and commercial real estate loans. Our total loan originations increased in 2011, particularly to businesses.

X Increase securities purchased (ABS, MBS, etc.).

The stronger capital position allowed us to purchase local municipal notes and bonds in 2011 that we likely would not have purchased without the CPP portion of our capital base.

X Make other investments.

We invested in four new branches in 2009 that we likely would not have opened without the CPP funding. Those branches and all of our other branches continued to serve local customers in 2011.

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☒ **Increase reserves for non-performing assets.**

Our reserves for loan losses were significantly increased in 2008 and 2009 and remained substantial in 2010 and 2011. The CPP funds allowed us to absorb the significant provision for loan losses necessary to build and maintain this strong reserve position.

☐ **Reduce borrowings.**

☒ **Increase charge-offs.**

Our net charge-offs, although significantly reduced in 2011, were substantial in each of the last four years. The CPP funds allowed us to absorb those charge-offs and maintain our capital base at an appropriate level while we worked to resolve problem assets in a difficult environment.

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☐ Purchase another financial institution or purchase assets from another financial institution.

☐ Held as non-leveraged increase to total capital.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

While our total outstanding loan balances declined during most of the past four years, largely because of weak demand and net charge-offs in the recessionary environment, we likely would have significantly further curtailed new loan originations without the CPP capital infusion.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

In June 2010 we successfully completed a secondary public offering of common stock which resulted in net proceeds of \$161.6 million to strengthen our capital base. Further, over the past three years we raised approximately \$58 million (including \$22 million in 2011) of additional capital through our Dividend Reinvestment and Stock Purchase Plan (DRIP). These capital raising activities very likely would not have been possible without the prior infusion of CPP funds. Also, as noted in previous a previous survey response, in 2009 and 2010 the capital infusion from the CPP funds allowed us to initiate an aggressive marketing campaign to assist our builders to sell their existing inventory of newly constructed homes by providing significant media advertising support and special low interest rate financing for home purchasers. This "Great Northwest Home Rush" campaign received national attention as an example of the positive use of TARP funding and provided meaningful stimulus to sales. The additional capital also allowed us to continue to aggressively pursue and fund loans and bonds from local municipalities and other governmental entities, including housing authorities serving low and moderate income families. Further, we opened four new branch locations in 2009, including the construction of a new two story office building in downtown Everett, Washington. Without the CPP funding, all of this loan, investment and branching activity would likely have been curtailed in an effort to limit growth and conserve capital to meet regulatory capital guidelines.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.